Micro-Economic Monitor

With the special report:

Un país en transición

Mexico

A Country in Transition

Third Quarter, 2001

Micro-Economic Analysis Directorate, Policy Sector, Industry Canada.
This document is also available on the Internet at http://strategis.ic.gc.ca/sc_ecnmy/mera/engdoc/04.html

Table of Contents

Overview ..... A

Domestic Scene

- Real Economic Activity ..... B
- Income Side C
- Price Movements ..... D
- Labour Situation ..... E
- Financial Variables ..... F
- Fiscal Track ..... G
- Competitiveness ..... H
- International Accounts I
- Sectoral Overview ..... J

Special Feature:
Mexico: A Country in Transition

- Foreword ..... K
- Government and Politics L
- The Economy ..... M
- The Society ..... N
- A North American Player ..... O
- Canada-Mexico Linkages ..... P

102-05226/

Overview

The economy contracts in the third quarter of 2001...

Real GDP fell by 0.8% (annual rate) in the third quarter of 2001, ending 37 consecutive periods of growth.

- **Consumer spending fell by 0.3% (annual rate) in the third quarter, marking the first decline since 1995. Businesses liquidated their stocks, subtracting 2.1% from growth, and exports of goods and services falling 7.7% (annual rate) continued to be affected by the global economic slowdown, particularly by the recession in the U.S. On the positive side, activity in the housing sector picked up, and business investment in machinery and equipment (M&E) grew nearly 13% (annual rate), though the rise was due to some unique circumstances.**

...and expectations are for further weakness in the near-term

Based on the average of private sector forecasts in Budget 2001, the Canadian economy is expected to contract further in the fourth quarter before showing moderate growth in the first half of next year. A solid recovery is expected in the latter half of next year, supported by a rebound in the U.S. economy and stimulative domestic monetary and fiscal policy. Real GDP is expected to average 1.3% in 2001 and 1.1% in 2002, but to post robust growth of 3.9% in 2003.

This issue's special report documents the recent transformation of the Mexican economy. As it becomes an increasingly large player in the North American economy, Mexico will offer Canada a growing market for two-way trade, but also increased competition in our largest export market and most important source of foreign investment – the United States.

Domestic Scene

Real Economic Activity

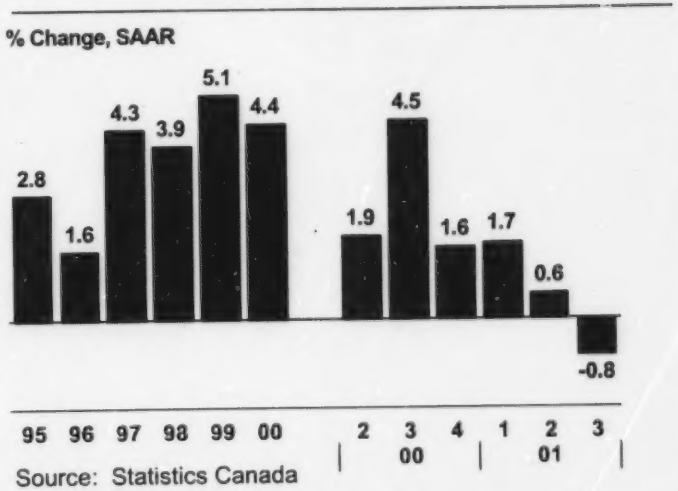
The economy contracts for the first time since 1992...

Real GDP fell by 0.8% (annual rate) in the third quarter of 2001, bringing an end to 37 quarters of uninterrupted growth.

- **The slowdown reflects deteriorating consumer and business spending, an inventory correction, and continued weakness in the export sector.**

Most forecasters expect the economy to remain weak in the near term, and to recover in the second half of next year.

Real GDP Growth



Source: Statistics Canada

The weakness in the third quarter reflects in part the impact of the September 11th attacks on the US and Canadian economies. US real GDP fell 1.1% in the third quarter, following meager growth of 0.3% in the second quarter.

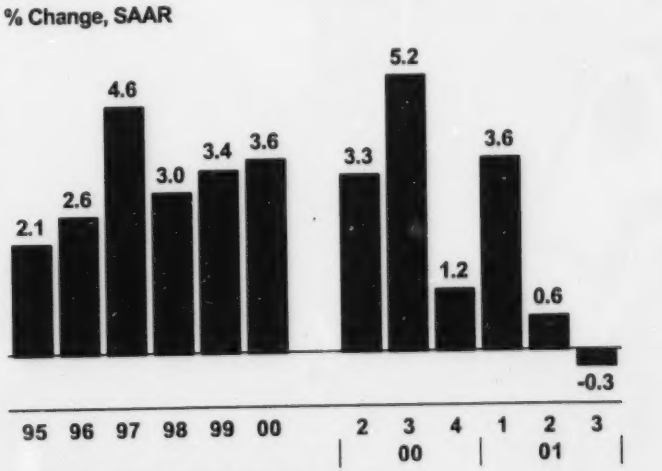
...as consumer demand turns down...

Consumer spending fell by 0.3% (annual rate) in the third quarter, marking the first decline since 1995.

- **Auto sales fell despite generous dealer incentives, and other durable and semi-durable goods spending appears to have been affected, at least temporarily, by the events of September 11.**

- **Spending on services picked up on the quarter, as a healthy boost on telecommunication and cable and specialty television services offset declines in air transportation and accommodation spending.**

Real Consumer Expenditure Growth



Source: Statistics Canada

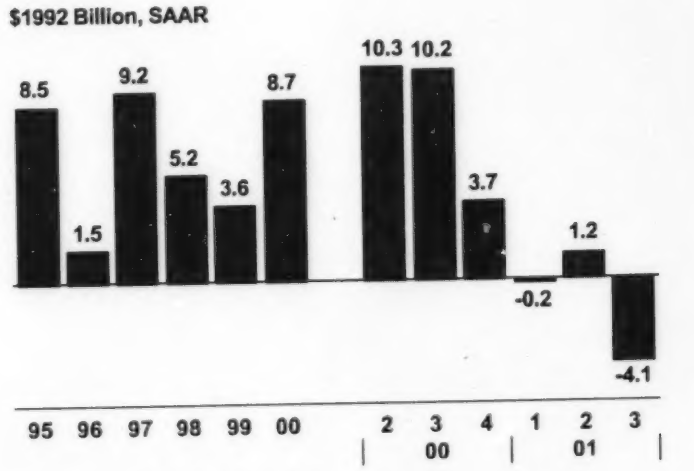
...and an inventory correction subtracts from growth

Businesses liquidated their stocks in the third quarter, subtracting 2.1% from growth.

- **Wholesalers led the decumulation, while Manufacturers also reduced their inventories. Retailers continue to draw down their stocks for example, auto inventories fell for the fourth straight quarter, but by less than in previous quarters.**

- **Sluggish spending pushed up the economy-wide stock-to-sales ratio in spite of these reductions.**

Non-farm Business Inventory Investment



Source: Statistics Canada

Exports continue to weaken...

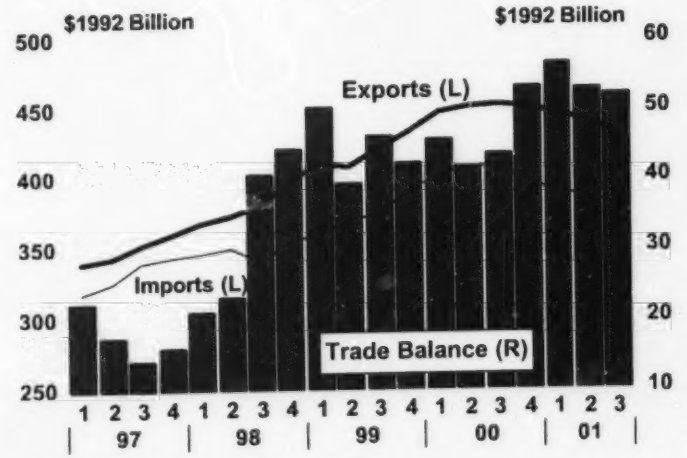
Reflecting the global economic slowdown, particularly the U.S. recession, exports of goods and services fell 7.7% (annual rate) in the third quarter, marking the fourth consecutive decline.

Led by declines in imports of energy products, machinery and automotive parts, imports fell at a similar pace.

As a result, Canada's real trade surplus declined slightly.

***The business cycle dating committee of the National Bureau of Economic Research has declared that the U.S. economy went into recession in April 2001.**

Real Exports and Imports of Goods & Services



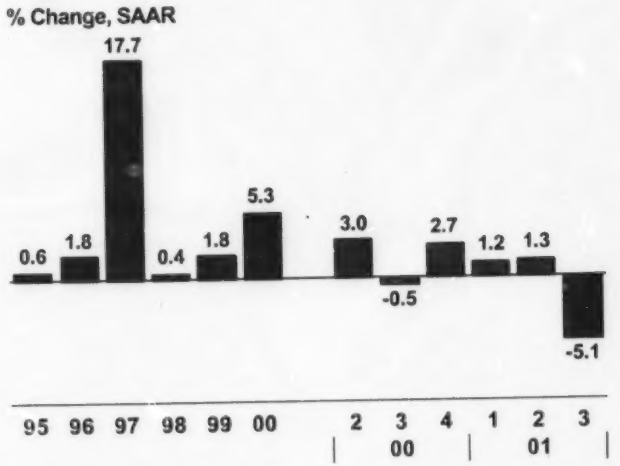
Source: Statistics Canada

...and non-residential construction falls

Non-residential construction activity contracted in the third quarter, reversing the advances of the previous three quarters.

- **While declines were posted in both building and engineering construction, the engineering component recorded the biggest drop, falling below 2000 levels.**

Real Non-residential Construction Growth



Source: Statistics Canada

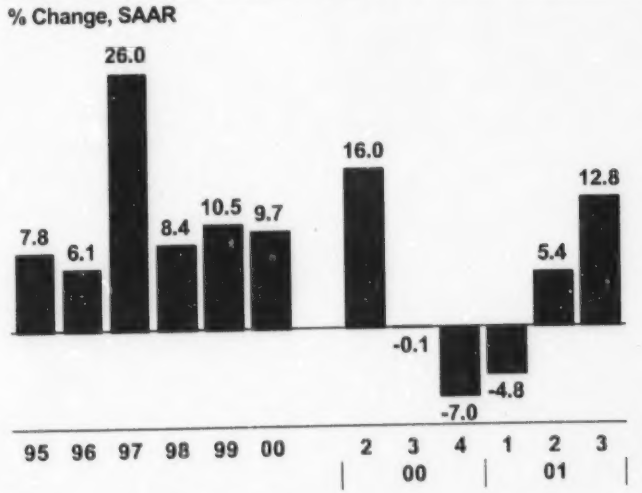
However, investment in M&E posts solid growth, due to special factors...

Business investment in Machinery and Equipment (M&E) increased by nearly 13% (annual rate), building on solid growth in the second quarter.

- **However, the third quarter strength is due to some unique circumstances. A huge gain in Transportation Equipment related to the importation of a floating drilling rig in Nova Scotia accounted for nearly all of the advance.**

- **More generally, falling corporate profits have exerted a dampening influence on investment.**

Real Machinery & Equipment Investment



Source: Statistics Canada

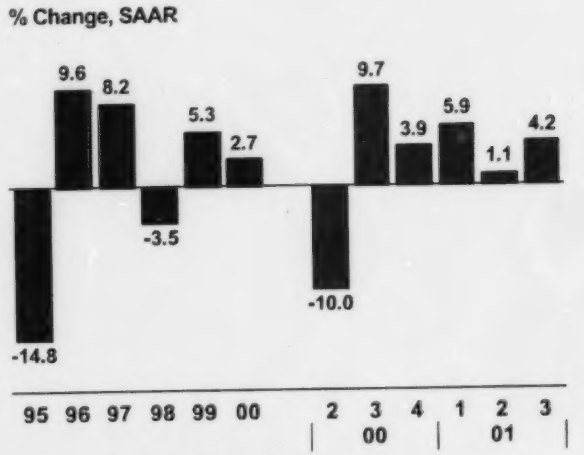
...and the housing market gathers strength

Residential investment advanced a solid 4.2% in the third quarter, picking up from the modest growth of the previous quarter.

- **All components of residential investment recorded advances - new housing construction, renovation activity, and sales of existing homes.**

These gains are supported by lower interest rates and rising disposable income.

Real Residential Construction Growth



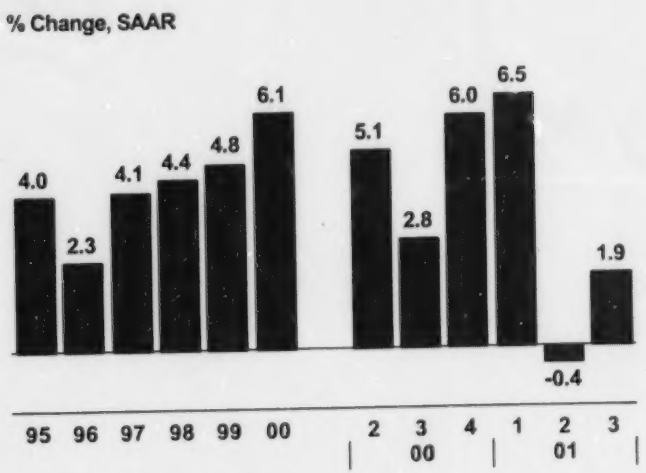
Source: Statistics Canada

Domestic Scene

Income Side

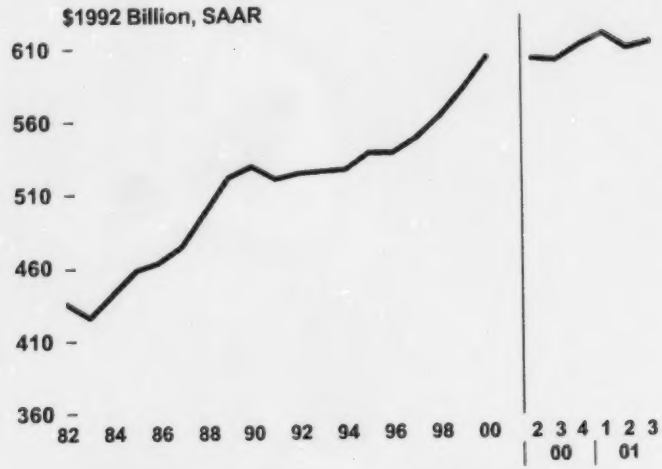
Incomes rebound in the third quarter...

Growth in Personal Income



Source: Statistics Canada

Real Personal Disposable Income*



*Converted to real dollars using the chain price index for personal expenditure on goods and services.
Source: Statistics Canada and Industry Canada

Personal income edged up 1.9% (annual rate) in the third quarter, reflecting major advances in unincorporated business income as a result of higher bank loans and mortgages. Increased federal transfers also contributed to the rise in personal income. Labour income grew 1.3% in the third quarter, a modest increase from the 1.1% advance in the second quarter - a five-year low.

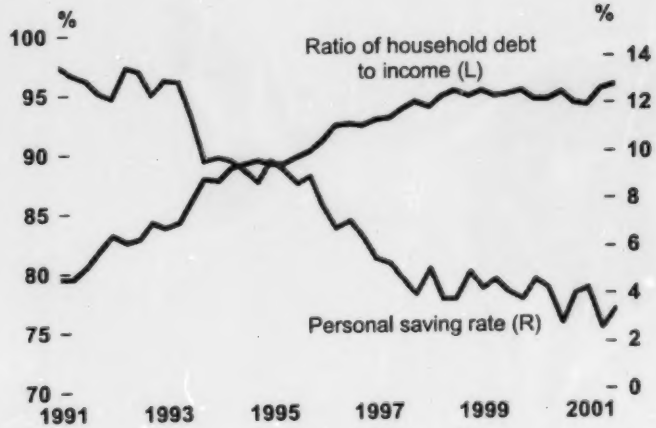
Income tax cuts helped boost personal disposable income by 3.5%. After adjusting for inflation, personal disposable income rose 2.3% on the quarter, following a 5.8% decline in the second quarter.

...but cautious consumers increase their savings

Despite higher income levels, consumer spending declined for the first time since 1995. As a result, the personal saving rate rose to 3.3% in the third quarter.

However, the household debt-to-income ratio rose to 95.6% in the third quarter, as consumer and mortgage debt levels rose faster than income.

Personal Debt and Savings Rate



Source: Statistics Canada

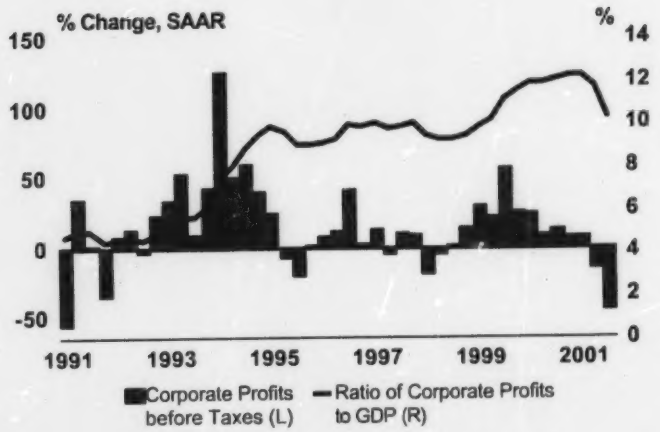
Corporate profits fall further

Corporate profits fell sharply by 45.0% (annual rate) in the third quarter, the largest quarterly drop since 1991.

- **The declines were widespread, with certain sectors hit particularly hard. Oil & Gas Extraction suffered from a drop in energy prices. Transportation Services were affected by falling airline industry profits stemming in part from the September 11 attacks. The Wood & Paper industry suffered major declines in the wake of countervailing duties on softwood lumber exports to the U.S.**

As a percentage of GDP, corporate profits fell to a 2-year low of 10.3%.

Corporate Profits



Source: Statistics Canada

Domestic Scene

Price Movements

The CPI records its smallest annual rise in more than two years...

Consumer price inflation slowed to an average of 2.7% in the third quarter, down nearly a full percentage point from 3.6% in the second quarter.

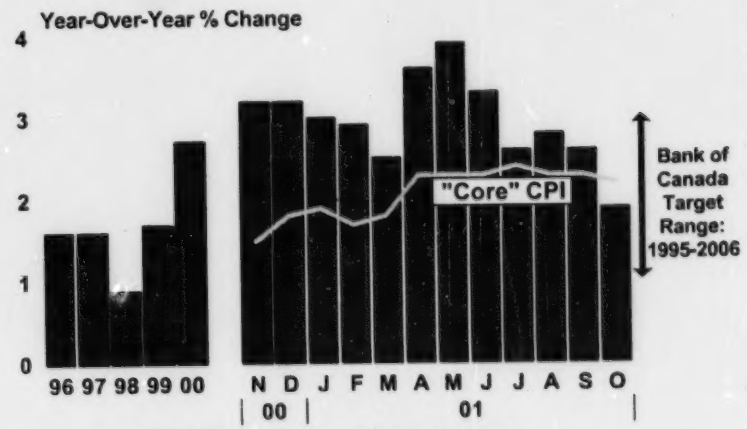
Similarly, annual GDP inflation slowed to 0.2% from 1.9% in the second quarter. On a quarterly basis, the GDP price index fell 1.2%, its second consecutive quarterly drop.

- **Falling energy prices have been largely responsible for lower inflation.**

In October, consumer price inflation dropped to 1.9%, its lowest level since July 1999 and a full two percentage points below its recent high in May.

- **"Core" inflation – which excludes the most volatile components of the overall index and the impact of indirect taxes – was 2.2% in October, down from 2.3% in September and within the official 1-3% target range.**

Consumer Price Index



Source: Statistics Canada & Bank of Canada
In May 2001, the Bank of Canada and the Finance Department announced the renewal of the inflation target for monetary policy until 2006. The Bank also refined its measure for the underlying trend in inflation as measured by "core" inflation. "Core" CPI excludes prices for fruit, vegetables, gasoline, fuel oil, natural gas, mortgage interest, inter-city transportation and tobacco products as well as indirect taxes.

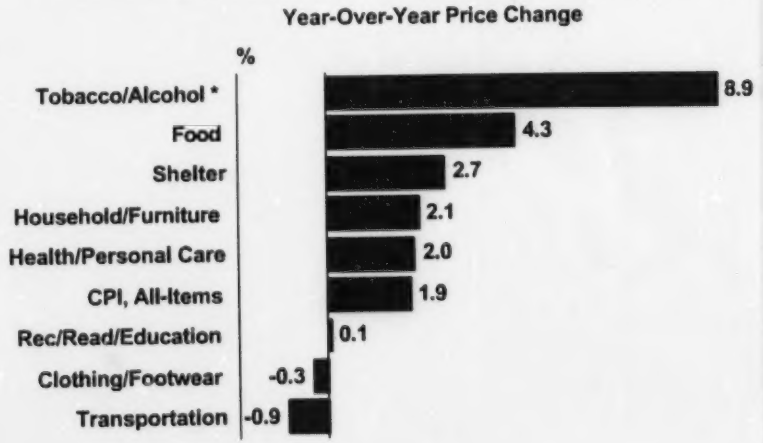
...as energy prices fall in October

For the first time in two and a half years, the yearly all-items inflation (1.9%) was below core inflation (2.2%) as energy prices fell 2.7% from October last year.

By component, the decline in October mostly reflected a slowing in shelter cost inflation for the fifth straight month and a fall in private transportation costs. Lower computer prices (recreational equipment) continued to dampen consumer inflation.

Meanwhile, food price inflation was more than twice the all-items CPI inflation and accounted for two-fifth of the rise in the index.

Components of CPI: October 2001



Source: Statistics Canada

* In April, a federal-provincial tax on cigarettes was introduced, effectively raising the level of the Tobacco & Alcohol price index. The effect of this tax will continue to be reflected in year-over-year inflation until April 2002.

Weak demand continues to dampen industrial input prices

Industrial product prices – those received by producers at the factory gate – fell 1.0% from October last year, their first year-over-year drop since February 1999.

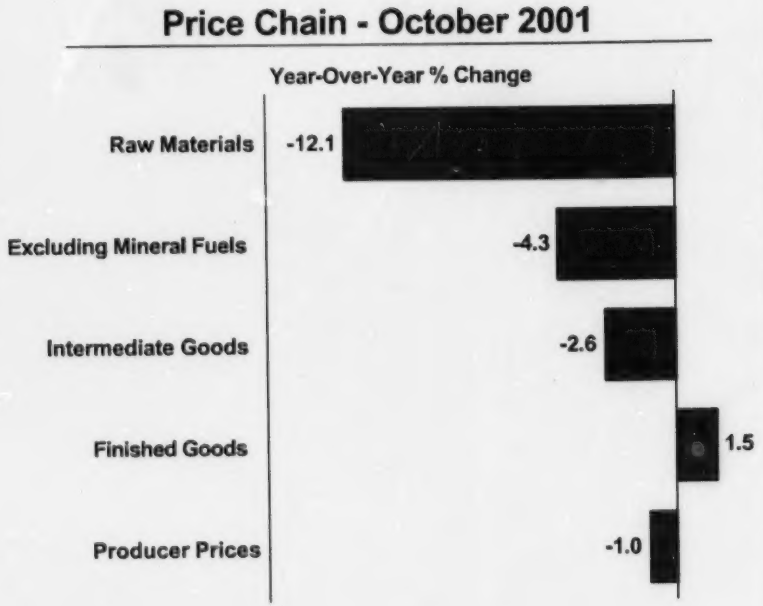
- **Petroleum and coal product prices declined for the fourth straight month. Prices for pulp & paper and primary metal products also declined.**

- **Higher motor vehicle prices provided offsetting pressure to these declines.**

Raw materials prices fell 12.1% in October, their third consecutive decline.

- **While the fall in mineral fuels prices had the largest impact, a sharp decline in wood products and non-ferrous metals also influenced the price drop.**

Lower producer prices reflected both weak demand and falling costs for raw materials, which suggests that the CPI and GDP inflation will remain subdued.



Source: Statistics Canada

Domestic Scene

Labour Situation

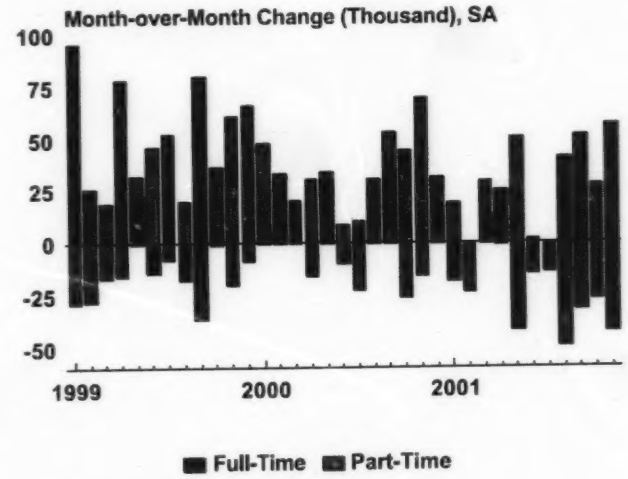
Labour market conditions are softening...

Reflecting the slowing economy, the pace of job creation has grounded to a stand-still in recent months.

Employment was essentially unchanged in October, with the softening due in part to the effects of the September 11 attacks. Employment rose by 14,000 in November as an increase of 57,000 part-time jobs offset the loss of 43,000 full-time jobs.

- **Employment is up only 43,000 in the first eleven months of 2001, compared to a solid gain of 293,000 for the same period last year.**

Employment Growth



Source: Statistics Canada

E-1

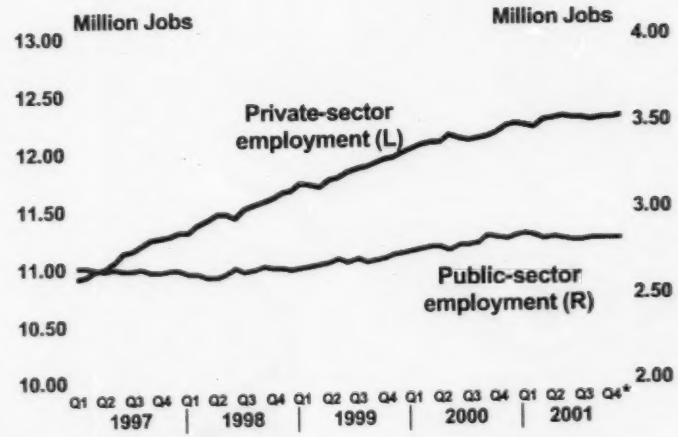
...largely reflecting a lackluster performance in the private sector...

In the third quarter, 9,000 private sector jobs were lost. Paid employment was higher while self-employment continued a decline which began last year. The modest job gains in the first half of this year reflected gains in paid employment.

In the first two months of the fourth quarter, private sector employment rose by 11,000, due to a rebound in November.

The private sector gained 57,000 jobs in the first eleven months of 2001, while the public sector lost 15,000 jobs, following solid gains last year.

Employment: Private vs. Public



Source: Statistics Canada

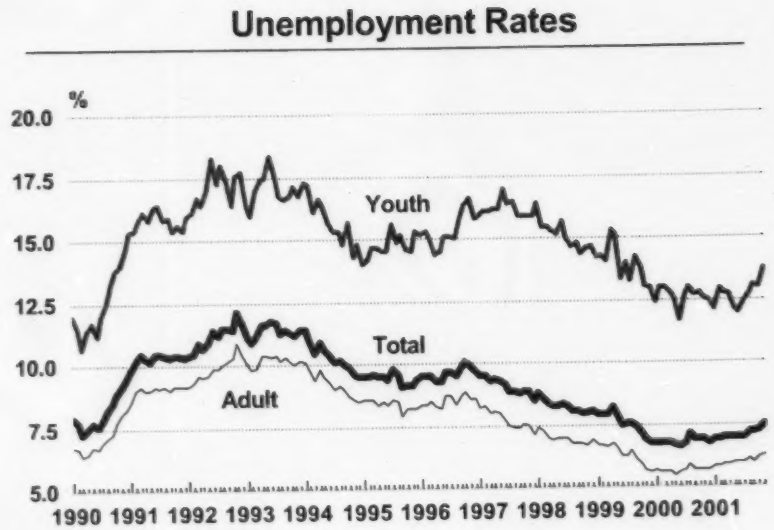
*Only October and November are included in the data for the fourth quarter of 2001.

...and leading to a rising unemployment rate

Canada's unemployment rate has risen in recent months, as increases in the labour force more than offset the slow pace of employment growth.

In November the unemployment rate rose to 7.5%, up from 7.3% in October and a low of 6.6% in June of 2000. The 0.9 percentage points rise in the unemployment rate is considerably less than the 3.1 percentage points rise experienced between March 1990 and August 1991, a period during which Canada was in a recession.

The rise in unemployment since June 2000 has been steeper for youth (+2.0 percentage points) than for adults (+0.7 percentage points) typical of other slowdown periods.



Source: Statistics Canada

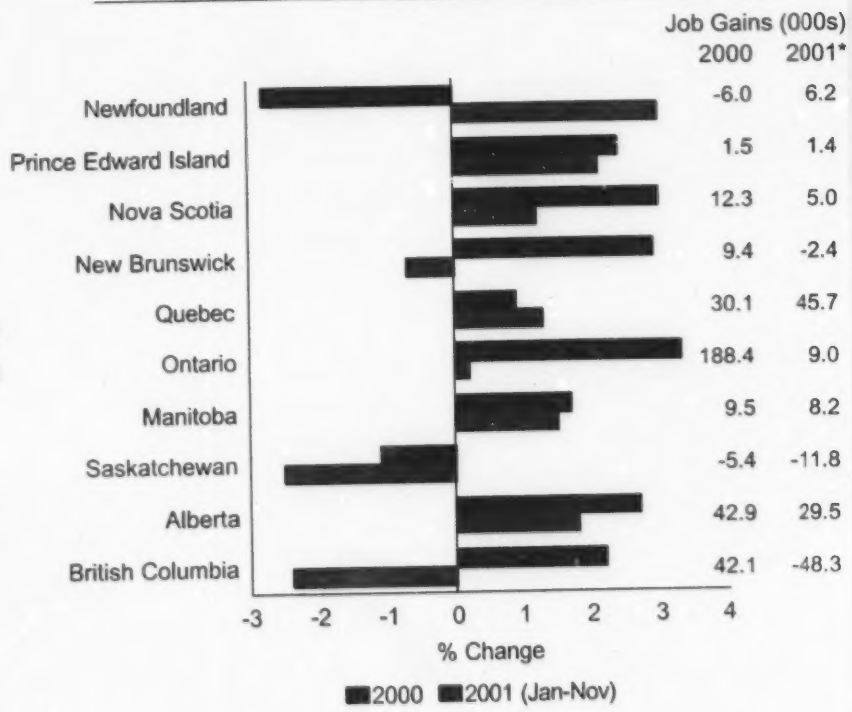
Quebec, Newfoundland and Alberta fare much better in terms of employment growth this year...

In Newfoundland, job gains in the first eleven months of 2001 have more than offset the losses posted in 2000. Quebec's job gains are well above the total for 2000. Alberta continues to post strong employment performance but has experienced less vibrant employment conditions than last year.

Following strong growth last year, employment in Ontario has been relatively flat in the first eleven months of 2001, with job losses in Manufacturing largely offsetting gains in other parts of the economy. The situation is similar in British Columbia, reflecting a softening labour market as the year progressed.

Labour market conditions have been lackluster throughout the year in New Brunswick. Saskatchewan is the only province experiencing job losses in both 2000 and 2001.

Employment Growth by Province, November 2001



Source: Statistics Canada
*Figures for 2001 are year-to-date (January to November)

...and unemployment rates edged up in most provinces

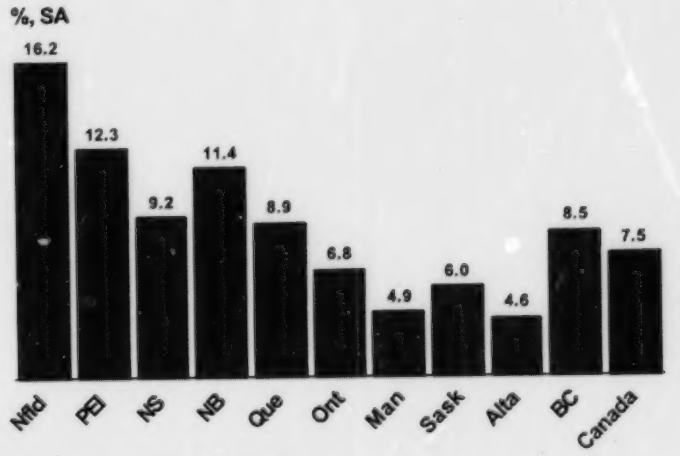
The sluggish performance of employment has resulted in higher unemployment in eight of ten provinces. Only Newfoundland and Alberta have posted lower unemployment rates so far this year.

- **Solid job gains in the first eleven months of 2001 have lowered Newfoundland's rate by 1.5 percentage points from the end of last year. During the same period, the unemployment rate in Alberta has fallen 0.2 percentage points to 4.6% in November.**

In November, the most notable increases in the unemployment rate were posted in New Brunswick (+0.8 percentage points) and Quebec (+0.4 percentage points).

Manitoba's rate was unchanged at 4.9% in November, while a lower unemployment rate was registered in Nova Scotia and P.E.I.

Unemployment Rates: November 2001



Source: Statistics Canada

Domestic Scene

Financial Variables

North American authorities lower interest rates sharply...

After a cumulative reduction of 175 basis points (bps) between January and August, the Bank of Canada has lowered its key policy rate by a further cumulative 175 bps in the aftermath of the September 11th events.

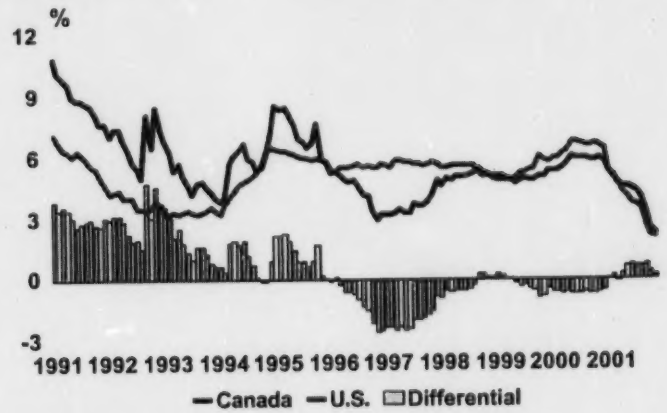
- **On November 27, the ninth reduction this year, brought the target overnight rate from 2.75% to 2.25%, its lowest level since 1960. The next policy-setting date is January 15th 2001.**

- **The U.S. Federal Reserve cut the Fed Funds rate to 1.75% on December 11, bringing the total reduction this year to 475 bps.**

In line with these developments, Canadian money market short-term rates have dropped sharply, with yields on 3-month commercial paper closing out at 2.17% on November 28. The spread between Canada and U.S. rates has narrowed from around 100 bps early in October to 17 bps on November 28.

Central banks in both the U.S. and Canada have left the door open for further easing of monetary conditions, if necessary.

Short-Term Interest Rates



Last data point plotted: November 28, 2001

Source: Bank of Canada, 90-day Commercial Paper, last Wednesday in the month

F-1

...prompting yields on long-term issues to decline further

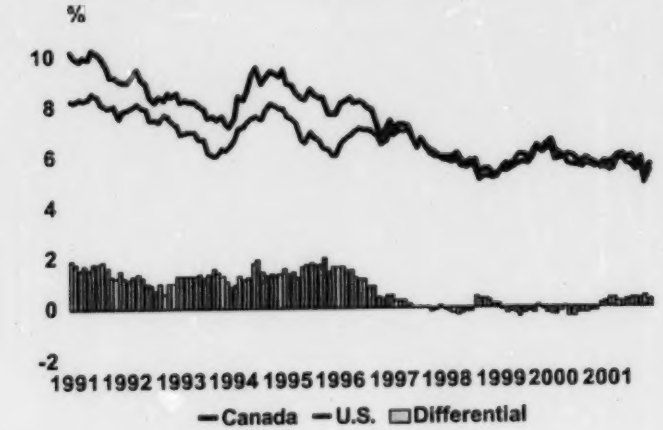
After rising in the first five months of 2001, North American long-term yields have fallen sharply on increasing signs of deteriorating conditions and prospects, which were compounded by the September 11 events.

- **Canadian long-term yields have dropped from over 6% in mid-May to a low of 5.28% early in November.**

- **More recently, however, bond yields have somewhat recovered in response to some better-than-expected economic developments and expectations that the monetary policy easing cycle may be nearing an end.**

- **Bond yields were at 5.76% on December 7.**

Long-Term Interest Rates



Last data point plotted: November 28, 2001

Source: Bank of Canada, Government long-term bond, last Wednesday in the month

On October 31, the U.S. Department of the Treasury announced the termination of its auctions of 30-year Treasury bonds. As the suspension of the Treasury's thirty-year borrowing effectively makes the supply on North American bond market scarcer, this action contributed to the decline in yields on 30-year issues at home.

The Canadian dollar recovers to over the US¢63 mark, from a new record low...

The Canadian dollar fell to a new record low in November amid weakening global economic conditions and prospects, and falling commodity prices. However, the dollar rebounded somewhat subsequently on a recovery in commodity prices and improved sentiment about the North American economic outlook.

- **The Canadian dollar reached an historic low of US¢62.4 on November 9.**

- **It thereafter appreciated on evidence that the Canadian economy was outperforming the U.S. economy, closing out at US¢63.5 on December 7.**

Canada-U.S. Exchange Rate

Last data point plotted: November 30, 2001

Source: Bank of Canada

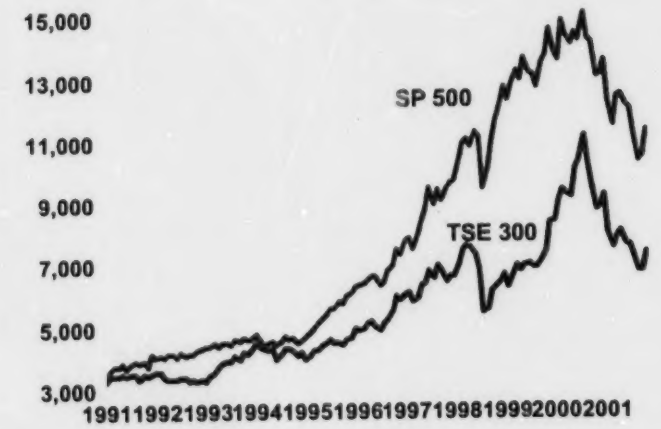
...while North American equity markets rebound from their September lows

After the September 11 attacks, North American equity markets plunged but retraced their losses in the following weeks, as investor confidence was slowly re-established and prospects for a recovery in corporate profits, possibly in the second half of 2002, improved.

- **The TSE 300 and the S&P 500 each lost 11% of their value in the two weeks following the September attacks, bottoming out at 6513 and 966, respectively. As anxiety diminished and expectations of a recovery improved, the indices rose back above their pre-attack levels.**

- **The TSE 300 closed at 7617 on December 7, driven by renewed strength in the technology sector.**

Stock Market Indices



Last data point plotted: November 30, 2001

Source: Statistics Canada

Domestic Scene

Fiscal Track

Federal finances on track for surplus despite the slowing economy

For the 2000-01 fiscal year, the federal government posted a budgetary surplus of $17.1 billion.

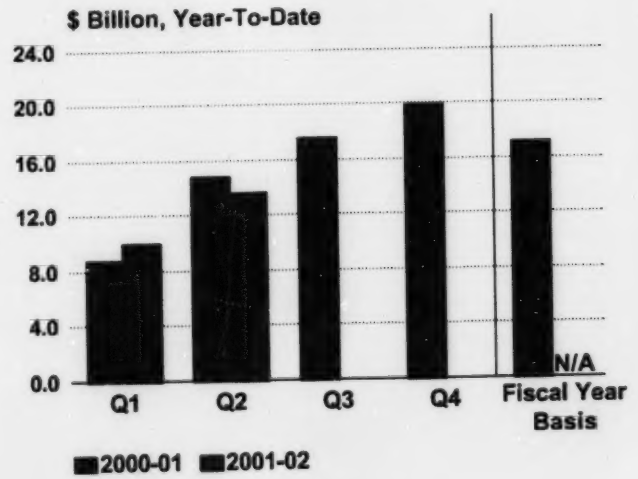
- **More than $35 billion of the net public debt has been retired over the past four years, lowering the debt-to-GDP ratio from a peak of 70.7% in 1995-96 to 51.8% last year.**

Over the first six months of the fiscal year 2001-02, the federal government has posted a surplus of $13.6 billion, compared to $14.7 billion reported for the same period last year.

- **The cumulative surplus is widely expected to fall in the second half of the fiscal year because of the ongoing impact of tax cuts, the spending initiatives implemented in the December 2001 federal budget (and the previous ones) and the effect of the slowing economy on government revenues.**

Along with the federal government, 6 provinces and 1 territory are expected to post balanced budgets or surpluses in 2001-02.

Federal Budgetary Balance



Source: Department of Finance

Domestic Scene

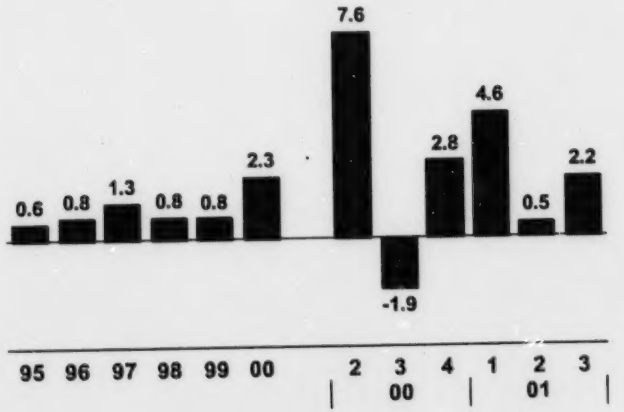
Competitiveness

Despite higher unit labour costs in the third quarter...

Unit labour costs rose 2.2% (annual rate) in the third quarter, up from a 0.5% increase in the second quarter.

- **This increase reflects a higher total wage bill and lower labour productivity as expressed by the level of output per employee.**

Growth in Unit Labour Costs



Source: Industry Canada calculations

H-1

...Canadian firms' competitive position improves

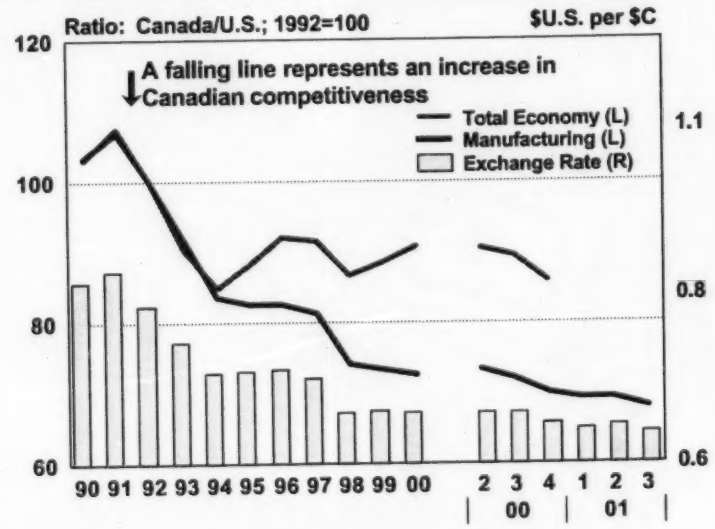
Canadian firms' competitiveness improved in the third quarter in comparison with their U.S counterparts.

On a same currency basis, Canadian unit labour costs fell 1.8% relative to the U.S.

- **The improvement resulted largely from a weaker Canadian dollar, which receded by a full cent from the previous quarter.**

- **Unit labour costs also increased at a slower pace in Canada, contributing to improved competitiveness.**

Unit Labour Cost Comparison ($US)



Note: Quarterly manufacturing ULC for 2001Q1 are not yet available.
Source: Industry Canada estimates based on data from the U.S. Bureau of Labor Statistics & Statistics Canada

Domestic Scene

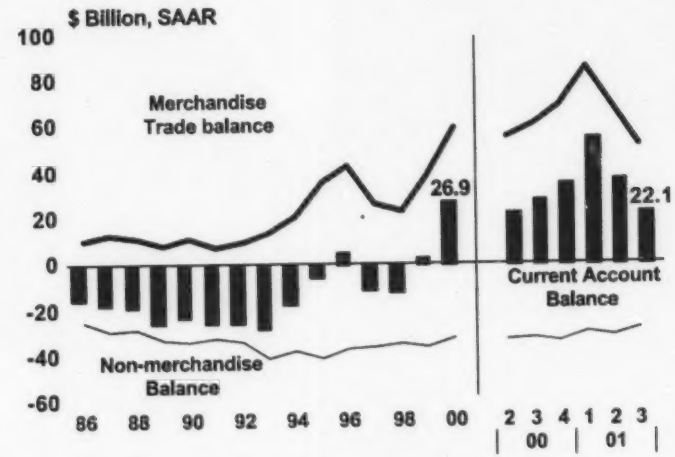
International Accounts

The current account surplus narrows significantly...

The current account surplus dropped to an annualized $22.1 billion in the third quarter of 2001, marking the second consecutive quarterly decrease. However, in historical terms it is still high, as the previous two quarters included the highest and the second highest surpluses on record.

On the capital and financial account, Canadian direct investment abroad dropped about 19% from the level posted in the second quarter. Foreign direct investment in Canada posted a larger decline as it dropped by more than a third in the same period. Notably, the decline originated mostly in the U.S. and was mainly confined to the energy and metallic minerals industries. Meanwhile foreign portfolio investors reduced their holdings of Canadian securities.

Current Account & Trade Balances



The merchandise trade balance represents net exports of goods.

The non-merchandise trade balance represents net exports of services plus net receipts of investment income and transfers.

Source: Statistics Canada

...largely due to a lower surplus in goods

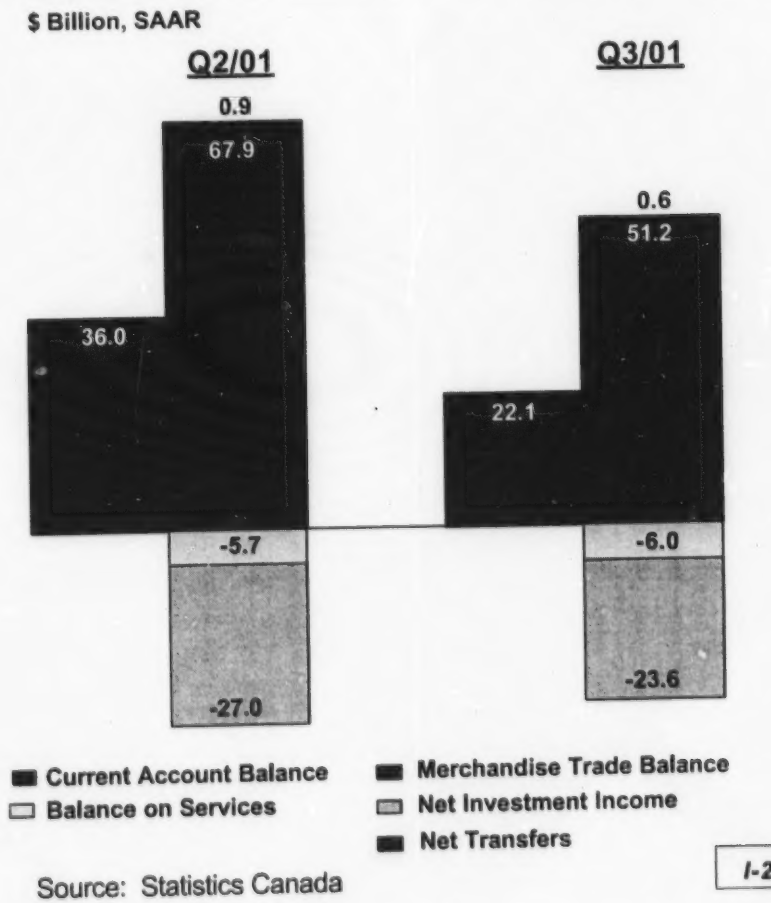
The reduced current account surplus for the third quarter was mainly due to lower exports, primarily reflecting the economic downturn in the U.S. and falling energy prices.

- **Energy products played a key role in the decline of both imports and exports, as energy prices fell and demand weakened.**

The goods surplus fell to $51.2 billion (annual rate) in the third quarter, down $16.7 billion from the previous period but still relatively high.

The deficit on investment income narrowed in the third quarter, reaching its lowest point in more than seven years. The deficit on services widened, largely due to an increase in the deficit on travel services (in part a result of the September 11 events) which was partially offset by a narrowing of the deficit on commercial services.

Main Components of the Current Account



Source: Statistics Canada

A global economic slowdown drags down our exports...

In the third quarter, exports of goods fell by a record $6.4 billion to $100.7 billion. Most of the decrease stemmed from lower energy exports, as energy prices continued to fall and international demand weakened.

Exports of Forestry Products, Automotive and Machinery & Equipment were down. Within the M&E category, exports of aircraft and aircraft equipment, which were strong earlier in the year, fell in the third quarter and were adversely affected by the September 11 attacks in the U.S. Sales of telecommunications and computer equipment remained very weak.

In the first three quarters of 2001, merchandise exports totalled $318.6 billion (in nominal terms) up 1.7% from a year ago. Strong demand and higher prices for Energy Products, particularly electricity and natural gas, drove much of this increase earlier in the year.

Merchandise Exports, 2001Q3

	$ Billion	% Change, Jan-Sept/00 - Jan-Sept/01
Total	318.6	1.7
By Trade Partner		
U.S.	271.8	2.3
Japan	7.2	-5.2
E.U.	16.7	0.0
All Others	22.9	-1.3
By Principal Commodity		
Agricultural & Fishing Products	23.2	13.2
Energy Products	47.2	28.0
Forestry Products	29.5	-6.5
Industrial Goods & Materials	50.1	1.6
Machinery & Equipment	75.4	-4.4
Automotive Products	70.0	-5.4
Other Consumer Goods	11.9	9.2

Source: Statistics Canada

...while imports fall primarily due to moderating domestic demand

In the third quarter, imports of goods, led by energy, machinery and auto parts decreased by $2.2 billion to $88.0 billion. This was primarily due to decreasing energy prices, weakening domestic demand and the events of September 11 in the U.S. With exports falling more than imports, Canada posted a lower merchandise trade surplus.

Over the first three quarters of 2001, merchandise imports were down slightly on a year-over-year basis. Lower imports of Automotive Products and Machinery & Equipment offset higher purchases of Energy Products and Agriculture & Fishing Products.

- With exports outpacing imports, the trade surplus was up sharply. Energy accounted for most of this increase.
- The trade surplus with the U.S. accounted for most of the overall improvement.

Merchandise Imports, 2001Q3

	$ Billion	% Change, Jan-Sept/00 - Jan-Sept/01
Total	267.6	-1.3
By Trade Partner		
U.S.	195.1	-2.6
Japan	7.9	-10.0
E.U.	26.2	7.0
All Others	38.3	2.4
By Principal Commodity		
Agricultural & Fishing Products	15.1	10.0
Energy Products	14.3	10.3
Forestry Products	2.2	-4.4
Industrial Goods & Materials	52.2	-0.9
Machinery & Equipment	86.8	-4.7
Automotive Products	54.6	-7.2
Other Consumer Goods	32.1	8.6

Balance by Trade Partner, 2001Q3

	$ Billion	Change ($Billion) Jan-Sept/00 - Jan-Sept/01
Total	51.1	8.9
U.S.	76.7	11.3
Japan	-0.7	0.5
E.U.	-9.6	-1.7
All Others	-15.4	-1.2

Source: Statistics Canada

Domestic Scene

Sectoral Overview

Goods production declines and Services activity stagnates...

Output in the Goods-producing sector fell an annualized 2.0% in the third quarter. This in part reflected the adverse effect of the September attacks in the U.S. and the slowing North American economy.

- **Manufacturing production dropped for the fourth consecutive quarter, led by weakness in the fabrication of computer and electronic products, transportation equipment, wood and paper products.**

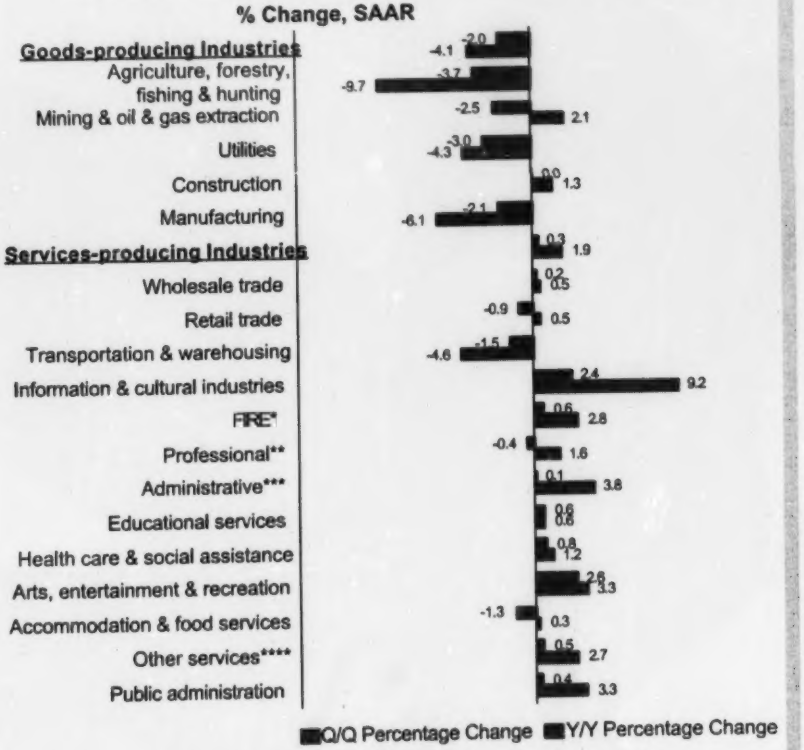
- **Mining & Oil & Gas Extraction suffered from falling commodity prices while weaker domestic and U.S. electricity demand reduced Utilities output.**

Services industries output edged up 0.3% in the third quarter, the lowest growth rate in five years.

- **Transportation & Warehousing and Accommodation & Food Services, two groups severely hit by the September events, recorded the largest quarterly losses.**

GDP by industry has undergone major classification and conceptual changes. The most important are: rebasing from 1992 to 1997 prices, the capitalization of software, change in valuation from the factor cost to basic prices and the adoption of the North American Industrial Classification System (NAICS).

Real GDP Growth by Industry: 2001Q3



Source: Statistics Canada

*Includes Finance & insurance, real estate & renting & leasing & management of companies & enterprises
**Includes Professional, scientific & technical services
***Includes Administrative & support, waste management & remediation services
****except public administration

J-1

...pulling corporate operating profits down

On a quarterly basis, corporate operating profits tumbled 14.4% in the third quarter, the largest quarterly slide on record. Overall, profits in 14 of the 24 industry groups declined, in line with slowing demand for output. The events of September 11 somewhat contributed to the decline, but the full impact might not be felt until the fourth quarter as the attacks occurred late in the quarter.

In the Non-Financial sector, profits were down 11.7%, the largest decline in five years. Operating profits in Manufacturing industries fell for the sixth straight quarter, pushed down by sluggish worldwide demand for high-tech products. Mineral Fuels and Transportation & Warehousing also recorded significantly lower profits.

Profits in the Financial sector dropped 21.8%, to their lowest level in almost six years. The bulk of the decline was recorded in the Funds & Other Financial Vehicles, largely due to losses on the sales of securities and equity funds.

Corporate Operating Profits

	2001Q3 Level ($M)	Change 01Q2-01Q3 ($M)	01Q2-01Q3 (%)	00Q3-01Q3 (%)
Total - All Industries	37582	-6306	-14.4	-24.0
Total Non-Financial	28478	-3772	-11.7	-19.3
Agriculture, forestry, fishing & hunting	485	-26	-5.1	-4.5
Mineral fuels	4737	-1259	-21.0	-7.0
Mining except mineral fuels	527	-143	-21.3	-35.5
Utilities	1167	430	58.3	157.0
Construction	737	-35	-4.5	-44.7
Manufacturing industries	7088	-2526	-26.3	-45.5
Wholesale trade industries	2161	25	1.2	-3.1
Retail trade industries	1956	-297	-13.2	-15.7
Transportation and warehousing	481	-406	-45.8	-65.4
Information and cultural industries	2004	173	9.4	-5.7
Real estate, rental and leasing	2530	-25	-1.0	13.6
Professional/Scientific	526	12	2.3	16.4
Management of companies	2555	572	28.8	25.7
Other services to business	619	-277	-30.9	-12.1
Education services	60	23	62.2	-13.0
Health care and social assistance	413	17	4.3	14.7
Arts, entertainment and recreation	75	0	0.0	-29.2
Accommodation and food services	29	-6	-17.1	-107.6
Other services	327	-25	-7.1	-25.5
Total Financial	9104	-2534	-21.8	-35.7
Depository credit intermediation	4208	-83	-1.9	2.3
Non-depository credit intermediation	1234	98	8.6	63.7
Insurers	1074	171	18.9	-11.2
Funds and other financial vehicles	1388	-2909	-67.7	-79.7
Other financial intermediaries	1200	190	18.8	-4.8

Source: Statistics Canada

Employment growth continued to be soft in the third quarter...

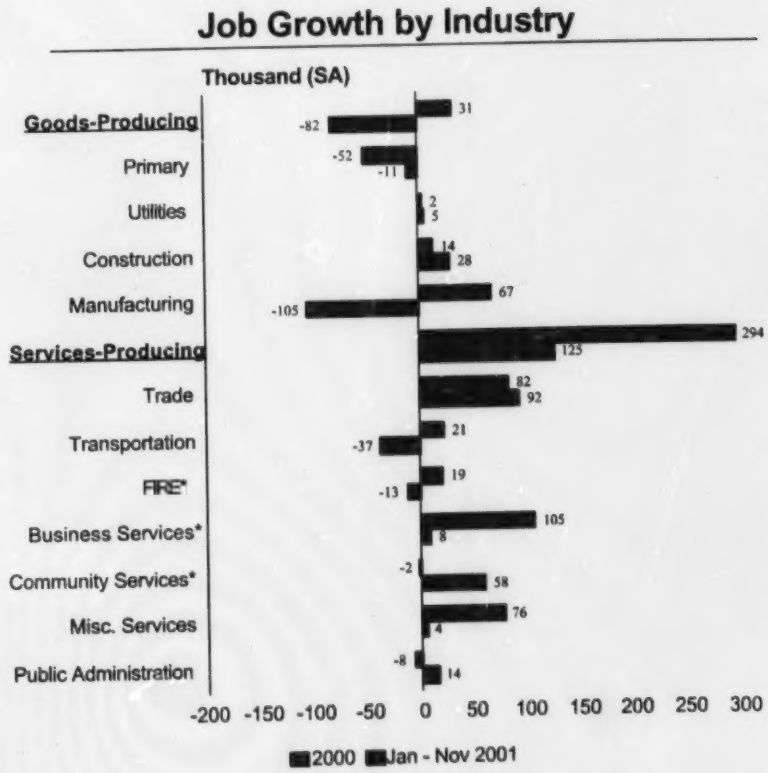
Employment in the Goods-producing industries is down 82,000 over the first eleven months of 2001.

- **These losses have been concentrated in Manufacturing and Agriculture. Net job gains by Manufacturing in the third quarter were more than offset by losses in October and November.**

In the Services-producing industries, 125,000 jobs have been created in the first eleven months of 2001. This reflects gains early in the year and a rollercoaster ride since then. October and November account for 109,000 of the above-mentioned job gains.

- **Business Services and Transportation posted the largest declines, with losses concentrated in Professional, Scientific & Technical Services.**

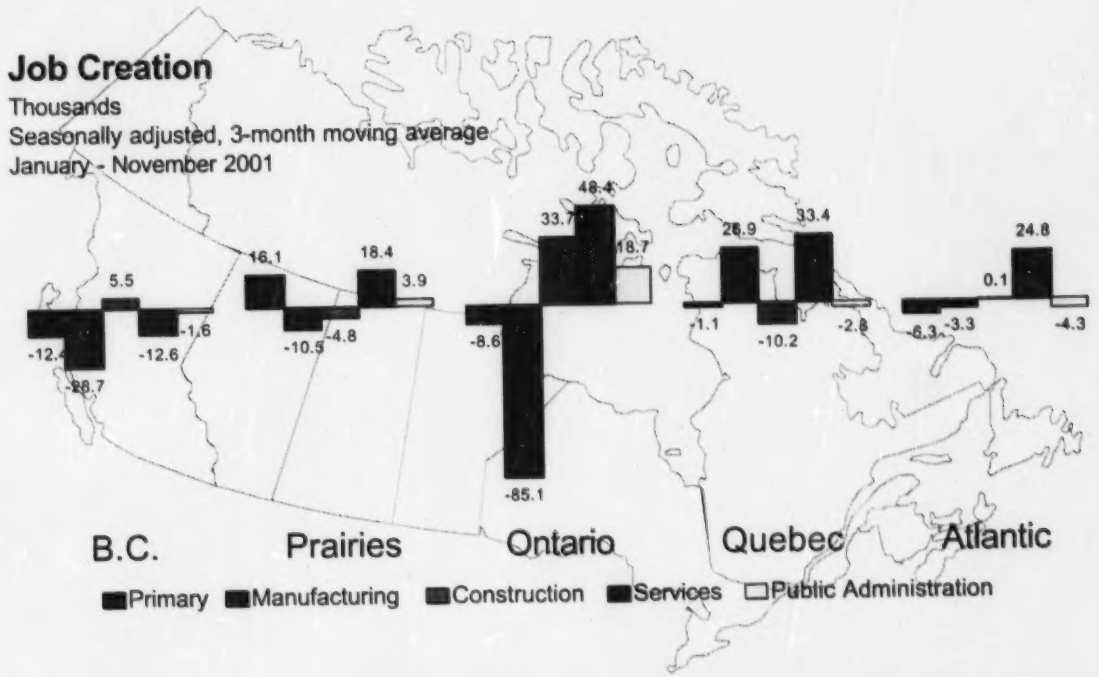
- **The largest gains so far this year have been recorded in Trade and Community Services.**



Source: Statistics Canada

*FIRE: Finance, Insurance, Real Estate and Leasing
Business Services: Management, Administrative, Professional, Scientific & Technical Services
Community Services: Educational Services, Health & Social Assistance.

...across most of Canada



Year-to-date job losses in the Services industries are concentrated in B.C., while most regions have posted job gains in these industries in recent months. In Manufacturing, employment has fallen in every region of the country except Quebec. The largest losses have been reported in Ontario.

The number of jobs in the Primary sector is up only in the Prairies, where gains have been driven by strong activity in the oil and gas sector. Gains in Construction employment have taken place mainly in Ontario and B.C.

Wage settlements are up for most industry groups

Wage settlements averaged 3.2% in the first nine months of 2001, up 0.7 percentage points from the 2000 average, but in line with inflation.

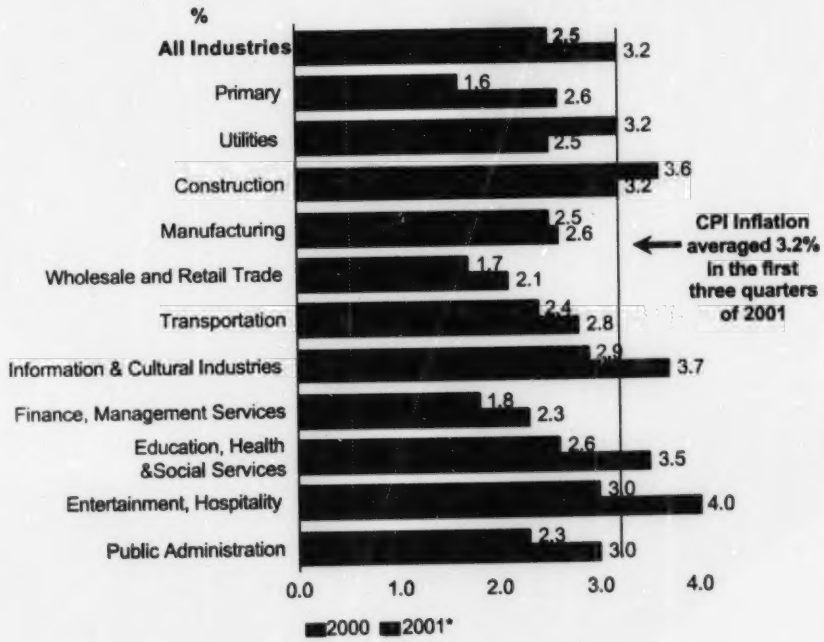
- **Settlements in eight of eleven industry groups were at or below the CPI inflation.**

- **Wage settlements were up in all major groups except in the Construction and Utilities industries.**

Public-sector wage settlements (+3.3%) were slightly above those in the private sector (+3.0%) for the January to September period.

Despite the slowing economy, average settlement reached 3.4% in the third quarter, up from 2.9% in the second quarter and almost one percentage point higher than the CPI inflation.

Wage Settlements by Industry



Source: Human Resources Development Canada

Effective average annual adjustments in base wage rates from major collective bargaining agreements.
*2001 data cover agreements reached over the January to September period.

Capacity utilization falls for the fifth straight quarter

Capacity utilization dropped 2.5 percentage points to 79.4% in the third quarter, the largest single-quarter decline on record. The capacity utilization has fallen from a peak of 88.2% in 1988 and stands at its lowest level since the end of 1992.

In Manufacturing, capacity utilization fell in most major groups, declining to 77.4% in the third quarter.

- **Prolonged weakness in demand for Computer & Electronic products has led to a drop of 39.4 percentage points in capacity use in the sector since its peak recorded last year. Delays at the border, related to the September attacks in the U.S., and slower demand lowered production of motor vehicles and parts.**

Outside of Manufacturing, capacity utilization decreased in the 4 major groups. The rate fell 5.9 percentage points in Logging & Forestry, which is suffering from the trade dispute with the U.S. Lower prices for Oil and Gas cut into demand for exploration, reducing the capacity utilization rate to 69.4% in this sector - the lowest level on record.

Capacity Utilization: Non-farm Goods-producing Industries

	Level (%) 2001Q3	Change (% points) Q/Q	Change (% points) Y/Y	10-year Average
Total industrial	**79.4**	**-2.5**	**-7.0**	**81.8**
Forestry & logging	76.6	-5.9	-13.5	82.2
Mining & oil & gas extraction	76.4	-2.9	-2.0	80.2
Electric power *	83.8	-4.2	-4.9	82.8
Construction	87.4	-0.9	-2.5	81.9
Total Manufacturing	**77.4**	**-2.6**	**-9.4**	**82.0**
Food	82.9	-0.1	1.8	80.3
Beverage & tobacco products	81.6	0.2	-1.9	79.3
Textiles	69.0	-1.2	-13.1	79.7
Textile mills	73.2	-3.0	-12.1	84.0
Textile product mills	64.0	1.1	-13.8	79.2
Clothing	80.5	-4.6	-6.4	82.0
Leather & allied products	83.8	8.7	8.9	73.2
Wood products	73.5	-2.2	-10.3	84.6
Paper	85.0	-2.1	-9.4	89.6
Printing & related support activities	72.4	-1.4	-9.5	78.1
Petroleum and coal products	94.5	1.5	0.4	89.9
Chemical	77.4	-3.8	-4.2	82.5
Plastic & rubber products	81.4	-1.4	-5.1	82.8
Non-metallic mineral products	71.5	-3.8	-11.4	75.3
Primary metal	84.9	-1.8	-5.4	88.8
Fabricated metal products	74.1	-1.7	-9.2	78.0
Machinery	75.5	-1.7	-5.7	77.8
Computer & electronic products	60.1	-9.3	-39.4	80.0
Electrical equipment	65.6	-6.6	-26.4	83.1
Transportation equipment	85.3	-1.6	-4.9	82.5
Furniture & related products	70.3	-4.6	-16.9	78.7
Miscellaneous manufacturing	70.0	0.0	-3.5	80.7

Source: Statistics Canada
*Electric power generation, transmission & distribution

The calculation of capacity utilization has undergone major classification and conceptual changes. The most important are: rebasing from 1992 to 1997 prices the measures of capital stock and gross domestic product (GDP), the adoption of the North American Industrial Classification System (NAICS) and the GDP valued at basic prices rather than at factor cost.

For Further Information

We welcome your questions, comments and suggestions? You can reach us by ...

sending us a letter:	Renée St-Jacques Director General Micro-Economic Policy Analysis Industry Canada 235 Queen Street Ottawa, Ontario K1A 0H5
e-mailing:	St-Jacques.Renee@ic.gc.ca
phoning:	(613) 954-3487
or faxing us at:	(613) 941-3859

The *Micro-Economic Monitor* is prepared on a quarterly basis by the Micro-Economic Policy Branch of Industry Canada. The Monitor provides a quick and easy-to-read update on Canada's economic performance. It also provides topical in-depth reports on current economic issues from a micro-economic perspective.

The current analysis update was prepared by Marianne Blais, Stéphane Crépeau, Anik Dufour, Joseph Macaluso, Arif Mahmud, Alison McDermott and Karen Smith, under the direction of Hossein Rostami. Translation has been provided by Lucie Larocque, and Sue Hopf is responsible for administrative support.

This quarter's special report was prepared by Aaron Sydor, under the direction of Someshwar Rao. The author wishes to thank André Patry, Phaedra Kaptein-Russell, Carolyn Mac Leod and Sarah Fisher for their assistance and Renée St-Jacques, James Kalwarowsky and the Mexico Division at Foreign Affairs and International Trade for their helpful comments. Translation was provided by Lucie Larocque.

ISSN 1206-260X

Q-1